

Tips for First-Time Home Buyers

YOUR FIRST HOME. Purchasing one is a rite of passage that most non-homeowners dream of. Besides the intangible benefits, homeownership lets you build equity, and is the single biggest tax break available to most consumers. Here's our look at some smart strategies for getting in the door.

First: Pay Off Your Debt

It's a common mistake for home-buyers-to-be: They focus on saving as much money as possible for a down payment instead of paying off other debts. A better approach is to use extra cash to eliminate credit-card and other high-interest consumer debt — even if that means you can put down less on your future home.

Why? First, credit-card debt is expensive and limits your ability to save. The average interest rate on credit cards is typically more than double the national average for a 30-year fixed-rate mortgage. Second, credit-card debt will limit how much you can borrow. That's because lenders often won't allow your total monthly debt service — which includes payments for credit cards, student loans and car loans, as well as homeowner's insurance, property taxes and a mortgage — to exceed roughly 40% of your gross income.

How Much Can You Afford?

The answer to that is a function of two things: How much you can borrow and how much of a down payment you can muster. As a rule of thumb, your annual mortgage payment, taxes and homeowner's insurance shouldn't exceed 28% of your gross income. Then determine how much cash you have for a down payment, leaving yourself enough left over to pay those pesky closing costs, which can add up to 3% to 5% of your total home's value (plus a little something extra for emergency repairs once you move into your new home).

Types of Loans

Now you're ready to start shopping around for the right loan. A first-time home buyer with a steady job and good credit can buy a home with less than a 20% down payment. But the more money you can muster for a down payment, the more options you will have. And, if you put down less than 20%, you will have to pay for private mortgage insurance. Your premiums will depend on a variety of factors, including how much you put down and the type of loan product you secure.

Questionable Credit

Worried you don't have perfect credit? You may yet qualify for a loan insured by the Federal Housing Administration, or FHA. These government-insured loans are issued with even more lenient credit criteria. You can also put down as little as 3.5% for an FHA loan. A portion of closing costs may be used to meet the 3.5% cash requirement. The seller may pay the closing costs for the borrower and the lender may also charge a premium interest rate, also known as rebate pricing, to fund the closing costs. Depending on the lender, interest rates are typically a quarter to half a point higher than those in the conventional market. To get a government-insured loan, make sure you find a HUD-approved lender or a mortgage broker who works with one.

Since these loans are geared toward helping first-time home buyers and low- to moderate-income families, there's a limit to how much you can borrow.

Down-Payment Assistance Programs

Still having trouble coming up with that down payment? Each year HUD gives states and municipalities money to distribute to low- and moderate-income families for housing. Much of it is put toward down-payment assistance programs. Many young prospective home buyers may qualify for a grant (or in some cases a loan that's forgiven if a home buyer stays in the home for at least three years) worth 3% to 5% or even more of the sale price to put toward their down payment or closing costs.

To qualify for a down-payment assistance program, a consumer can earn no more than 80% of a region's median income. Call your state housing finance authority, county housing and community development office or mayor's office for an application.

One final note of caution: While they are a rarity these days, don't fall for a no-equity loan offer or another loan whose terms sound too good to be true. These high-cost, high-risk home-equity loans are a bad idea.

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The tax benefits of homeownership

Real Estate Tax Talk

BY STEPHEN FISHMAN, FRIDAY, FEBRUARY 4, 2011.
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Q: How can real estate agents be a resource for buyers on tax issues, such as the tax benefits of buying vs. renting?

For the full article and answers click on the following link;
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